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Restaurant Business

A BILL PUBLICATION

OCTOBER 10, 1986

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Restaurant Business
COVER STORY

HARDEE'S BURGER BATTLE PLAN

BY KEVIN FARRELL

The fourth-largest hamburger chain in the U.S. is trying to bounce back from unspectacular 1985 results. Its strategy is to concentrate on operations, to grow at 15 percent annually, and to emphasize quality. Long-term, Hardee's intends to become a national presence. An acquisition is likely.

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HARDEE'S BURGER BATTLE PLAN

A reformulated burger, a new president, and a new marketing plan are all in place.

Hardee's Restaurant Systems, currently the fourth-largest hamburger chain and a major player in midwest, southeast, and mid-Atlantic markets, has set its sights on becoming a 5,000-unit national chain by 1991.

Within the next five years, the 2,600-unit chain will have to grow at 15 percent a year to reach that goal. And, to attain that penetration, Hardee's will undoubtedly have to purchase an existing fast food chain operating in markets where the chain is not now a presence.

But, for the moment, Hardee's attentions are focused closer to home. Following a lackluster fiscal 1986 (ended March 31)--during which systemwide sales reached $2.4 billion, average unit volume increased by a mere $1,000, only 28 company-owned units were opened, and operating earnings increased by a disappointing $4 million—Hardee's now has a new president, a new marketing campaign, and a new flagship product. In addition, a $200 million remodeling program is underway, and the chain intends to aggressively expand into new types of locations with its limited menu "Express" unit. Numerous other changes are in the offing as part of a major repositioning of the chain as it moves to become a national presence.

Hardee's parent, Montreal-based Imasco Limited, an $8.6 billion Canadian conglomerate primarily involved in tobacco and drug stores, has generally left the fast food chain to its own devices since it purchased Hardee's in 1981. But, following last year's less-than-optimal performance—which Hardee's chairman Jack Laughery says was the "only time I ever missed a budget" and Imasco's annual report blames on sluggish U.S. restaurant industry conditions—Imasco's brass made its desire for strong unit, sales, and earnings growth felt at Hardee's.

This year, Hardee's intends to open 57 company-owned units and 230 franchised stores, and projects average unit volumes up five percent. Sales are expected to increase by almost 10 percent systemwide.

NEW DIRECTIONS. To get Hardee's back on track, operations have become the key focus. Hardee's new president and chief operating officer, 39-year-old William E. Prather Jr. was lured away from the number two burger chain, Miami-based Burger King Corp., in March, where he had developed a strong operations-oriented philosophy during his 14-year career, most recently as executive vice president of worldwide operations. Already, Prather has made operational changes at the unit and regional levels in an attempt to decentralize decision-making and get closer to the consumer. He brought in an operations hand from Burger King to consolidate operational responsibility in Rocky Mount, NC, Hardee's headquarters. In addition, the speciality foods division, formerly responsible for innovative locations and limited menu operations, was disbanded.

Hardee's new president, William E. Prather, Jr., is emphasizing operations, training, and quality.

Now, with a recently introduced, reformulated quarter-pound hamburger which the chain claims is thicker and juicier than its competitors' products, and a newly developed, top-side grill on the way to its stores, Hardee's is attempting to take the "high road" in the ongoing burger wars. "We want to be known as *the* quality fast food chain," says Laughery, 51, chairman of Hardee's and president and CEO of Imasco, USA. An $18 million marketing blitz accompanying the reformulated burger emphasizes quality, and Hardee's intends to follow up with more new products and advertising designed to draw in the young, affluent customer in search of quality.

MARKETING STRATEGIES. "We're going at things a different way," emphasizes Laughery. "We're creating the product the consumer wants and then pricing it. Frankly, we are not as concerned about price today. If we give them the product they want, they're willing to pay for it." The reformulated hamburger, developed by Hardee's Fast Food Merchandisers (FFM) manufacturing division, which provides about 80 percent of Hardee's products, is served in three ways: as a quarter pounder with cheese, (priced at $1.19-$1.29); as a bacon cheeseburger, ($1.39-$1.49); and in a "Deluxe," which includes all the trimmings and sells for $1.79 to $1.89.

This quality, or "high road" strategy, as well as Hardee's growth projections, are laced with potential pitfalls, as Hardee's management is quick to acknowledge. "We have a perceptual problem," admits Prather. "We're known for breakfast and roast beef, both of which we do very well. But we've soft-pedaled the burger business for a number of years, and to bring them in for a consistent, quality product, changes will have to be made."

There was good reason to downplay the burgers for years, according to Laughery, who admits that "the old product was just not good." But Hardee's believes it has solved the problem with its new quarter-pound hamburger, developed after six years of market research and product testing by FFM. Although Imasco's annual report lists the fiscal 1986 development cost of the burger at $11.5 million, Laughery thinks the approximate cost of the entire six-year development process is more like $75 million, when expenditures by the entire Hardee's "family," including Imasco, corporate, and franchisees are taken into account.

But Laughery feels the payoff will be well worth the cost. "We tinkered with our sandwiches and gradually improved them over the years, but now we have a real quality sandwich that we can market," he crows. The $18 million marketing campaign, using the

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Chairman of Hardee's and Imasco USA, Jack Laughery has high hopes for the chain he has guided for 13 years.

HOW HARDEE'S COMPARES

COMPANY NAME	SYSTEMWIDE SALES	NUMBER OF UNITS	COMPANY-OWNED UNITS	FRANCHISED UNITS	AVERAGE UNIT VOLUME	1986 AD BUDGET
McDonald's	$11.5 bil.	8,901	2,165	6,736	$1.3 mil.	$686 mil.
Burger King	$4.5 bil.	4,743	839	3,904	$1.1 mil.	$180 mil.
Wendy's	$2.7 bil.	3,442	1,257	2,185	$848,000	N/A*
Hardee's	$2.4 bil.	2,562	875	1,687	$803,000	$45 mil.

HARDEE'S BURGER BATTLE PLAN

tag line "A Little Closer To Home," began in April, emphasizing Hardee's quality differences from its competitors.

BURGER WAR PARTICIPATION. The opening TV commercial in the campaign pitted legions of Hardee's major competitors' advertising characters—Ronald McDonald, (McDonald's) Clara Peller (Wendy's) and Herb (Burger King)—against one another in a mock war in which they all knock each other out, leaving Hardee's to trumpet its thick and juicy new burger. The marketing campaign has continued through the summer and early fall with an emphasis on the new burger's manufacturing process and the fact that it is made from American, not imported, beef. And Hardee's executive vice president of marketing, Gary Langstaff, 38, claims that Hardee's is the first chain to show its burger being cut in half on television, a testament to its quality. "We're the only one that has ever really been able to show it," he says.

And the new burger—as well as the advertising campaign—appears to be paying off. According to Hardee's research, top-of-mind restaurant awareness increased by 28 percent, surpassing Burger King and Wendy's in key Hardee's markets during the April-June quarter. Large hamburger sales are now running 30 percent ahead of 1985 totals, and Prather thinks the burger is responsible for the one and a half

The new burger is the beginning of its "high road" strategy in the burger battle, focusing on quality.

percent real growth increase in same store sales for the first quarter. Operating earnings for the quarter increased 16 percent, customer counts are up over one percent, and systemwide real sales growth is running three percent ahead of year-ago totals.

But Hardee's executives are cautious. "Of course, a certain amount of that is the result of the campaign and getting people to come in and try it once. The trick is to keep them coming back," says Prather.

MENU CHANGES. The reformulated hamburger products are, according to Hardee's executives, acting as a catalyst for change at the 25-year-old chain. A major strategic repositioning was undertaken in the wake of fiscal 1986's disappointing results. The result, titled "Vision 90," is being touted by Hardee's executives as a blueprint for change. In addition to the new hamburgers, other menu changes are in the works:

- The "Canadian Sunrise," a breakfast biscuit sandwich with Canadian bacon, cheese, hickory-smoked bacon strips, and an egg is now in the process of being rolled out systemwide.
- The mushroom and cheese hamburger, which met with only limited success in the past, will be re-introduced systemwide with the reformulated hamburger.
- Pre-packaged salads will go into test, with rollout expected in Spring, 1987.
- A "distinctive" chicken finger food product is targeted for Summer, 1987.
- Varieties of ice cream are now being tested, including a soft-serve, a firm-serve, and a hard ice cream with mix-ins. One will be selected for systemwide rollout by Summer, 1987.
- Work has begun on a variety of products which could be sold and marketed as dinner fare, tentatively scheduled for late 1987.

But Hardee's management says the chain will avoid trying to become all things to all people. Prather insists Hardee's intends to stay in the fast food business, and he is clearly not a proponent of menu proliferation. "We will keep it simple and fast. For every menu item we add, we have to look at something else to take off," he says.

And Prather is quick to question the rest of the menu, as well as the positioning of Hardee's. "I'm not so sure that what the world needs is another fast food burger chain. For that reason, I think the roast beef sandwich offers us a tremendous advantage because it helps us break through the clutter. While we'll continue to promote the burger, we have other strengths as well. Certainly, the specialty sandwiches are one." In addition to two sizes of roast beef sandwiches, Hardee's also sells chicken, fish, and hot ham and cheese sandwiches.

The chain is aiming new menu items at specific demographic groups—particularly working women—in order to boost its market share, which now to-

Today, the typical Hardee's unit offers drive-thru service and seats about 40.

tals about one and a half percent of all restaurant sales in the U.S., or about 10 percent of the sales among the big four hamburger chains.

When it rolls one out, Hardee's will be the last among the major—and even well behind some minor—fast food chains to market a chicken finger food product. Like the lighter chicken product, pre-packaged salads are clearly targeted at the women Hardee's now does a poor job of luring into its stores. The customer base is 55 percent male, partially as a result of past advertising campaigns, which included race car drivers and a male soap opera star.

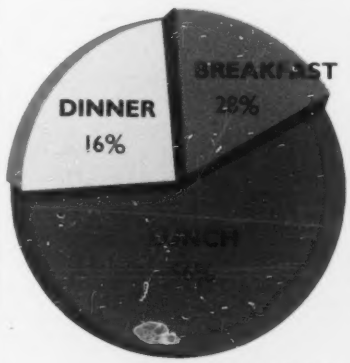
Says Prather: "Is the working woman going to come into a Hardee's? Not in great numbers. We need lighter fare. Our growth projections are dependent upon getting more women to come in."

But, once Hardee's gets the consumer—be it male or female—into the store, it wants to insure a consistent, quality experience, something Hardee's research shows consumers don't necessarily expect from the chain today. While Hardee's biscuit breakfast has proven to be a tremendous success (28 percent of all sales occur during breakfast hours), the chain is not noted for the speed of its service or the consistency of its food.

OPERATIONS EMPHASIS. To remedy that situation, management has turned its attention to operations. "The Hardee's sign has to mean the same to the consumer in one location as it does in another, and that isn't necessarily true today," admits Prather. "In some cases, the drive-thrus aren't fast enough, and service inside often has the same problem. And there are inconsistencies in food quality throughout the system." Prather thinks that Hardee's has been a "development-driven company, and now operations people will have to become the real leaders."

To begin correcting this problem, Hardee's will re-emphasize training, which Laughery calls the "linchpin" in Hardee's growth plans. "We can't grow the way we want to without the people," says Laughery. "If you look at what has tripped up the fast food chains that have had growth trouble, it usually isn't the financing, it's the people, or rather, the lack of people. If you don't have the people to run the restaurants, nothing is going to work."

WHEN THE SALES ARE



SOURCE: RB RESEARCH

The big question for the chain is: When will it become a national entity, and how will it compete?

Laughery admits that the growth Hardee's is talking about will be virtually impossible without a major commitment to training. And, to that end, Hardee's is exploring sites for its university, which may be built on land opposite its headquarters. It will contain at least two test kitchens and extensive, state-of-the-art facilities for training both franchisees and management. According to Prather, "Cost will not be a factor in putting together the best training facility possible."

In another move to improve operations, store managers are strongly encouraged to throw a product out when its time is up. During a recent visit to a store following the lunch rush, Laughery went to the trash pile first, and his face lit up when he saw the large amount of food being thrown away. "The hardest thing to do in this business is to get them (unit managers) to throw it away when it has to be tossed. They hate doing it, but we're starting to see progress, at long last," he says.

Ultimately, a new computer system now under development by Hardee's operations services group will track product needs on a unit basis and print out projections in 15-minute increments for store managers so the amount of waste can be further cut while ensuring that consumers receive the hottest and freshest product available. According to Gerry Richards, 50, executive vice president for operations services, "The new system will be able to predict volume almost perfectly."

NEW MEANS OF GROWTH. But operations isn't the only focus at the fifth largest U.S. foodservice company. Other changes are in the works. Although Hardee's has long been at the forefront of the fast food industry's search for new sources of revenue—it opened its first nontraditional location in 1980 on the Pennsylvania Turnpike—it is now searching for additional innovations in terms of location. Currently, two scaled-down Express units are being tested. One, located in metropolitan Asheville, NC, is a company-owned unit offering a double drive-thru and walk-up. Says Donald Mucci, 46, senior vice president of restaurant development: "So far, it is exceeding expectations."

The other, in rural Holy Hill, SC, is owned by a franchisee and has some seating. Both units offer a limited Hardee's menu: burgers, biscuits, fries, and sodas. The cost of land, building, and equipment for an Express unit is under $500,000, according to Mucci, compared to $850,000 for an average unit. But some at Hardee's think the chain should be concentrating its resources on urban food-court locations instead of rural drive-thrus. Says Mucci: "In the past, many chains have found that an area that can support a down-sized unit can handle a full-sized one, so why do the smaller one?" One reason: the return on investment can be up to 20 percent higher.

Another avenue now being explored by Hardee's is a deal with 7-Eleven, the 8,500-unit convenience store division of Dallas-based Southland Corp., which has become a Hardee's licensee. Now, in 10 units in the St. Louis area, a limited Hardee's menu is being offered in 7-Eleven stores. If successful, the ex-

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periment could be expanded. But there is one potential stumbling block: Such an arrangement worries Hardee's franchisees, who fear that the mini-stores may cannibalize their own full-size units. Prather believes their fears have been addressed. "In the test, we are watching closely for cannibalization. We have also guaranteed our franchisees that their territorial arrangments would be protected."

Hardee's is exploring other nontraditional locations, and has looked into mobile units, but the division that handled that sort of experimentation has been disbanded under Prather.

MACRO PROBLEMS. In addition to trying to eke growth out of its existing markets, Hardee's faces other potential difficulties. Among them: a sluggish economy which is now threatening a downturn, the notorious fickleness of the fast food consumer, and most importantly, the heated competition in the hamburger segment.

Hardee's faces three extremely strong national competitors, McDonald's, Burger King, and Wendy's, which together will spend about $1 billion this year on advertising. Hardee's and its franchisees will ante up a total of about $45 million in 1986 for its advertising. And, in a day when "the name of the game is market share," according to John D. Merritt, vice president of government and public affairs, those advertising dollars can be the determining factor. Although Hardee's outpaces the big three in many ways in its home markets, the dynamics of the game would change if Hardee's became a national chain. Says Prather: "We really have to be a national chain within five years, because that TV is very important to us. Now, without network television buys, it is difficult to control our marketing, and it isn't cost-efficient. We've got to get in that game." But, cautions Laughery: "While becoming a national chain is certainly important, we don't intend to do it at the expense of our extremely strong regional trademark."

Hardee's sees itself as a major, 5,000-unit chain by 1991. It could even pass Wendy's in some respects by then.

ACQUISITIONS. A quick look at the growth projections that Hardee's executives toss around leads an observer to a simple conclusion: In order to achieve the kind of growth Imasco wants and Hardee's hopes for, it will have to make a major acquisition, or a series of smaller acquisitions, over the next five years. Admits Laughery: "In a restaurant environment such as the current one, pressure is placed on smaller regional chains. That's not so good for them, but it could mean excellent opportunities for us." Beyond that, Laughery won't speculate on Hardee's acquisition plans, except to say that money is not a problem. "If there was something significant we wanted to buy, the money is there."

But it is no secret around Hardee's headquarters that another acquisition

A CHANGING OF THE GUARD

Jack Laughery's decision to bring an outsider in as president of Hardee's was a unique one. A proud, insular company that has rarely hires from the other burger giants, Hardee's has basically been under one-man rule by Laughery for 13 years. In 1972, Hardee's founder, Leonard Rawls, purchased Kewanee, IL-based Sandy's Systems, Inc., a 200-unit restaurant chain of which Laughery was then president. A year later, Rawls moved up to chairman and CEO, making Laughery president and COO.

NEW BLOOD. Laughery has been the architect of Hardee's growth from a small, 800-unit chain into a major presence as the fourth largest hamburger (and fifth largest foodservice) chain in the U.S. Now, he admits, "The time is ripe for new blood." William E. Prather, Jr. was the answer, coming to Hardee's in March from Burger King. He has brought an operational focus to Hardee's, which is now struggling to upgrade its image and go national.

NOT ALL ROSES. But some Hardee's old-timers have not taken well to Prather's style or his early decisions. And some don't like to see Laughery, at a relatively early age, giving up so much control to a newcomer. Says one veteran: "Ultimately, the big fear is that two camps may develop." Laughery and Prather both deny that such a situation is in the offing, with Prather emphasizing that "communication is the key, and Jack and I spend a lot of time together."

But Prather has already made decisions that have worried some insiders. Within a month of his arrival, the head of marketing was axed, now replaced by his former deputy, following a three-month period of uncertainty. And Prather shut down the specialty foods division, which operated almost autonomously and was responsible for Hardee's "entrepreneurial" endeavors. Some old-time Hardee's employees think that may have been a mistake, a decision they say Prather will have to reconsider within a few years.

BK EXODUS? Other executives were worried that a troop would follow Prather to Hardee's from Burger King, which has had its share of management troubles of late. So far, Prather has brought two Burger King veterans into top slots, but he says that will be all. "I have no intention of raiding Burger King," he says.

For his part, Laughery intends to stay active, while acknowledging a desire to retire within five years or so. Increasingly, he focuses on his other responsibilities as chairman of Imasco USA, the Canadian conglomerate's U.S. wing. Also under Laughery's direction is the Grisanti Restaurant Division, an Italian dinner house concept Imasco hopes to expand. Grisanti has opened a prototype unit in Omaha, and at least two others are expected to follow within the year.

is in the offing. "We're in the market for another major fast food chain, and it will probably happen within the next year," says one executive. Another Hardee's insider says that preliminary discussions have already been held with three major regional chains with geographical bases which would significantly expand Hardee's markets.

WHAT TO BUY. Over its 25-year history, Hardee's has not been reluctant to grow through acquisition. In 1972, Hardee's purchased Sandy's Systems, a 213-unit chain with a midwestern base. Ten years later, Hardee's bought 650-unit Burger Chef from owner General Mills Corp., also with a strong midwestern franchise. Now, the time again appears ripe for Hardee's to go on a shopping spree. Among the chains reportedly now being considered by Hardee's as potential acquisitons:

- Roy Rogers. The purchase of this 550-unit division of the Marriott Corp., which is reportedly for sale, would give Hardee's entree into the Baltimore/Washington, DC, markets as well as Virginia, Maryland, parts of the Midwest, New York City, and some New England penetration.
- Whataburger, Inc. The purchase of this privately-owned Corpus Cristi, TX-based chain, with 400 units, would move Hardee's into nine states, including Texas and California.
- Carl Karcher Enterprises. With almost 500 units, the purchase of this Anaheim, CA-based chain would bring Hardee's into an immediate leadership position in California.
- Jack-in-the-Box. Buying this 850-unit, San Diego-based chain would also provide Hardee's with entrance into California markets.

But a major acquisition could present problems for Hardee's. Litigation resulting from the Burger Chef purchase is still underway, and conversion to another concept is often blocked by existing agreements or contracts.

But, in the end, the advantages of acquisition far outweigh the potential stumbling blocks. The greatest advantage, according to Laughery, is in the acquisition of the people required to successfully operate the units. "When you make a purchase like that," says Laughery, "You don't just buy bricks and mortar. You need the people more than anything." For that reason, a purchase of the magnitude Hardee's is looking for has to be handled carefully. The only way Hardee's will achieve a national presence in the time frame it wants is through acquisition.

Left, vice president for government affairs, John Merritt. Right, Donald Mucci, sr. vice president of restaurant development.

LOOKING AHEAD. And then what? Will Hardee's be able to compete with the giants? It will certainly change the nature of the burger wars. "In terms of units, we won't catch McDonald's or Burger King," admits Laughery. But surpassing Wendy's, now the third largest hamburger chain, with 3,500 units, is a realistic goal, he says. Prather emphasizes the high road burger strategy, although he also thinks Wendy's can be caught in terms of average unit volume and in average return on invested capital. "To be the best fast food chain in the U.S.," he says, "we don't need 6,000 units. We are not in hot pursuit of any of our competitors in terms of the number of units, although I do think we will surpass one of them at some point."